TABLE 9. (Continued)

a. This column shows federal program expenditures as a percentage of all expenditures--federal, state, and local--for this purpose. In many areas, percentages shown are approximations.

b. Includes Old Age, Survivors and Disability Insurance, Railroad Retirement, benefits for disabled coal miners, and federal employee retirement and disability programs.

c. Does not include offsetting receipts from premium payments of $3.9 billion in 1982 and $4.3 billion in 1983.

d. All Unemployment Insurance funds are channeled through the federal Unemployment Trust Fund, and are shown here, but most benefits--about 80 percent--are actually paid through state payroll taxes assessed on employers.

e. Includes Low Income Home Energy Assistance (LIHEA), Earned Income Tax Credit, and Refugee Assistance.

f. Includes Special Supplemental Food Program for Women, Infants and Children (WIC), National School Lunch Program, National School Breakfast Program, Childcare Feeding Program, Special Milk Program, and Summer Feeding Program. The federal government provides all of the funding for WIC, and about half of the funds for other child nutrition programs.

g. Appropriations, not outlays. Includes Preventive Health Care Block Grant, Substance Abuse and Mental Health Block Grant, Maternal and Child Health Block Grant, Primary Care Block Grant, Family Planning Program, Migrant Health Services, and Black Lung Clinics. Data on state spending since the block grants were created are not available for some of these areas.

h. Does not include health block grants.

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by the federal government. 5/ The populations served and the division of responsibilities for the major public assistance programs are summarized in Table 10 and outlined in more detail in Appendix C.

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5. States may also provide supplementary benefits in SSI if they choose.

TABLE 10. POPULATIONS SERVED AND JURISDICTIONS RESPONSIBLE FOR MAJOR PUBLIC ASSISTANCE PROGRAMS

Program	Population Served	Funding	Adminis-tration	Benefit Levels	Eligibility
AFDC	Low-income single-parent families and some low-income two-parent families with an unemployed head	Federal-state cost sharing, based on a matching formula	State and local	State determined. Wide variation among states	Categorical requirements largely federally determined. Income standards set by states
SSI	Low-income persons who are disabled or are aged 65 or over	Federal, with state-funded supplements in 44 states and the District of Columbia	Federal and state	Federal minimum benefit level, with varying levels of state supplementation	Categorical requirements federally determined. Income standards set by states, subject to federal minimum

Basis for Federal Involvement in Public Assistance Provision

Federal involvement in public assistance programs is largely motivated by a concern for the distribution of resources, both among states and localities and among low-income people in different areas of the country.

TABLE 10. (Continued)

Program	Population Served	Funding	Adminis-tration	Benefit Levels	Eligibility
Food Stamps	Low-income households	Federal	State	Federally determined. Uniform nationwide	Federally determined
Medicaid	AFDC and SSI recipients, and some other low-income households at states' discretion	Federal-state cost sharing, based on a matching formula	State and local	Basic services federally determined. States may add some other services at their option	Minimum categorical requirements federally determined. States may choose to cover some additional low-income households
Housing Assistance	Low-income households	Federal	Federal, state, and local	Tenant rent payments set according to federally determined formula	Determined according to federal guidelines. Varies among localities

Federal participation in these programs has generally aimed to improve the adequacy of resources available to low-income people in certain categories, and to relieve hardships that might result from very low income levels. In addition, federal involvement may also reduce some spillover costs resulting from state and local activities, and, in some programs, may result in increased administrative efficiency.

Distribution of Resources. The major reason for federal participation in public assistance programs is a concern for the distribution of resources in general, and a desire to reduce hardships that could otherwise face persons in certain groups perceived to be particularly at risk. These groups include elderly persons, single-parent families with children, and disabled persons, all of whom are relatively likely to have reduced incomes. In general, means-tested income security and health programs provide cash benefits and services to low-income members of these groups, in order to help ensure their access to necessary goods and services.

Many public assistance benefits are provided at the state and local levels rather than by the federal government. Like individuals, however, states and localities have very different levels of resources available to them, and may also have different proportions of their populations in need of benefits. Thus, providing a given level of benefits for low-income persons in one of the above categories might impose much greater hardships on some states than on others, depending on states' fiscal capabilities and on the size and other characteristics of their low-income populations. In addition, states may have different views on the appropriate minimum level for benefits of various types, leading to very different treatment of similar individuals in different states. Federal participation in public assistance programs has, therefore, been justified both on the ground that some redistribution of resources across states may be necessary if major hardships are not to be imposed on some states, and on the ground that there is a national interest in certain types of support for low-income persons, which some states may not provide without federal intervention.

Under the current system of public assistance provision, states continue to have considerable discretion both over the types of low-income persons receiving benefits and, even more, over the level of benefits they receive. Although benefits are probably more uniform than they would be in the absence of any federal role, the current system guarantees neither a minimum level of benefits for all states, nor a uniform federal contribution to benefits for recipients in different states. Federal participation in this area partially offsets differences in state resources, however, since in some programs the federal share of expenditures for benefits varies inversely with state per-capita income. In addition, because the level of federal food stamp benefits depends in part on a family's income from other sources, including cash public assistance, families in states with low cash-benefit levels will be eligible to receive relatively high food stamp benefits. As a result, federal aid through the Food Stamp program partially offsets differences in the provision of cash benefits among states.

Spillovers and External Effects. To the extent that federal participation reduces the disparities between state public assistance programs, it may also reduce spillover costs across states. Large disparities in public assistance provision may induce potential recipients to migrate to the areas with the highest benefits and most liberal program rules, which could result in an inefficient allocation of resources and in additional costs for relatively generous states and localities. In addition, the potential for such migration might encourage states to hold their benefit payments below the level that their residents would otherwise consider appropriate, in the hope of inducing eligible beneficiaries to live elsewhere. If several states pursued such policies, the costs would be borne not only by other more generous jurisdictions, but also by those low-income persons who were relatively less mobile. Thus, to the extent that there is a government interest in maintaining minimum living standards for low-income persons, the existence of such spillover effects argues for some federal involvement.

Centralized Coordination. Most public assistance programs are currently administered by state and local governments. Unlike social insurance programs such as Social Security, public assistance programs do not generally require that records be maintained over a long period of time in order to calculate benefits. Therefore, efficiency gains from more centralized administration would not, in most cases, be large. Since the populations served by the various programs often overlap, however, it is possible that some efficiency gains would result from better coordination between programs. This might be achieved through program consolidation at the state level, or through changes in federal program rules designed to facilitate better coordination.

Income Security and Health Programs: Current Policy and Effects

Existing public assistance programs address some of the federal interests outlined above, but benefit levels, and to some extent eligibility standards, are still largely controlled at the state level. There are major differences among programs, however. Some, such as the Food Stamp program, are fully funded by the federal government and also have their benefit levels and eligibility standards set at the federal level. Others, such as Aid to Families with Dependent Children and Medicaid, are partially funded by the federal government and partially funded by states. In these programs, eligibility criteria (other than income) are largely set at the federal level. Benefit levels in AFDC, and to some extent services available under Medicaid, are largely state-determined, however.

A third possible pattern is represented by the Supplemental Security Income program. In SSI, the federal government provides a minimum guaranteed income level for eligible participants, which the states may supplement. The federal government pays for benefits up to the minimum income level, and states pay for any additional amounts. As in the AFDC and Medicaid programs, categorical eligibility standards for SSI are federally determined.

In general, there is a tradeoff in these programs between the similar treatment of similar individuals who live in different jurisdictions, and the freedom of local agencies to respond to local conditions. Thus, in a program like food stamps, all individuals across the country with similar incomes and circumstances receive the same benefits. In a program like AFDC, on the other hand, a family that is eligible in a high-benefit state might receive lower benefits or might not be eligible in a low-benefit state. Also, because benefits are determined at the state level, the range of benefits in AFDC is very large. An eligible family with three members and no other income in Connecticut or California, for example, receives AFDC benefits more than four times as high as a similar family in Mississippi or Texas. The difference in total benefits is much smaller if both families receive food stamps, since food stamp benefit levels depend to some extent on total income including cash benefits from other programs, but the Connecticut and California families still receive about twice as much in combined benefits as similar families in Mississippi or Texas.

Such differences in benefit levels may be justified by differences in costs of living among the states. For example, if the cost of living in California is higher than in Mississippi, a given quantity of benefits will buy more in Mississippi than in California. On the other hand, the cost of living probably does not vary by as much as total benefits do, and a family with dependent children and no income in California will probably be better off in terms of the buying power of its combined AFDC and food stamp benefits than a similar family in Mississippi.

OPTIONS FOR MODIFYING THE FEDERAL ROLE

Many analysts have charged that the large number of separate public assistance programs, each with different income standards and eligibility criteria, has resulted in a system that is confusing and difficult to administer. Realignment of these responsibilities among jurisdictions, however, would require some tradeoffs between federal interests on the one hand and state and local interests on the other. This section outlines some options for realignment in the income support programs, in the health care programs, and in other programs providing non-insurance-related benefits for individuals.

Income Support Programs

As outlined above, the major means-tested programs providing income support to low-income individuals and families are the AFDC, SSI, and Food Stamp programs. Although the aim of all these programs is to provide support to eligible low-income persons, they differ considerably in their approaches. This section examines three major options for restructuring the income support system as a whole: complete elimination of federal involvement, a restructuring of the system of sharing costs, and assumption of full responsibility for these programs by the federal government.

Eliminate Federal Involvement. Under this option, the individual states would assume responsibility both for program funding and for setting eligibility criteria and payment standards for those public assistance programs that are now fully or partially funded and controlled at the federal level. Thus, for example, the Food Stamp program could be turned over to the states, as was suggested by the Administration in its 1982 federalism proposal. Similarly, the AFDC program could be entirely state funded, instead of partially funded by the federal government as under current law.

Under such a plan, states would be better able to tailor eligibility criteria and program rules to those groups who are locally considered to be the most in need. Further, concentrating control over public assistance programs at one level could lead to greater administrative efficiency, perhaps allowing states to combine some programs--for example, by providing additional cash payments instead of food stamps to AFDC recipients.

There would also be some drawbacks to a plan of this type, however. First, requiring state provision of all public assistance benefits could impose substantial financial burdens on state and local jurisdictions. If no additional funds or revenue sources were turned over to the states, such a plan could result in large tax increases to support these programs or in substantial cuts in benefits. Financing difficulties could be especially serious for states with large low-income populations and relatively small tax bases.

Even if some federal revenues were also turned over to the states to help pay for income support, some problems would remain. For example, if full responsibility for public assistance programs was given to individual states and localities, it would further increase the difficulty of ensuring minimum levels of public assistance provision for groups such as the disabled, the elderly, and dependent children. In addition, such a plan could increase differences in benefit levels for similar individuals in different jurisdictions, and might lead to some spillover of costs across state boundaries if potential recipients were led to move to states with higher benefit levels.

Change to a Consistent Set of Shared-Funding Rules in All Programs. This option, which would involve restructuring the income support programs to achieve greater consistency in the federal role among programs, could be implemented in several different ways. For example, funding could be carried out through a matching formula like that used in the AFDC program, which splits the costs of benefit provision between individual states and the federal government on the basis of state per-capita income. A similar formula, or one based on a broader set of measures that might include each state's total tax base and number of potential recipients, could be used in all of the income support programs. A state-federal matching program probably results in more spending for income support than would occur in the absence of federal funding, which may be appropriate given the spillover problems discussed earlier. A matching formula based on each state's tax base and needs would also help to reduce inequities in benefit levels resulting from differences in state fiscal capacities, while allowing states considerable local control over benefit levels and eligibility standards.

On the other hand, such a system would probably result in considerable variation in benefits among jurisdictions, as now occurs, for example, in the AFDC program. Under this option, not only would total benefits received by similar individuals in different areas vary, but so would the federal contribution to those benefits. Although there may be a strong argument for state control over state benefit payments, it is more difficult to argue that federal benefit payments should differ by jurisdiction. In addition, funding benefits exclusively through federal-state matching grants, with no minimum benefit level, could lead states to lower their benefits to induce out-migration of welfare recipients with the attendant spillover costs discussed above.

A second method of sharing responsibility for income support programs between the states and the federal government would be to provide benefits at a minimum level guaranteed and funded by the federal government--as is now done in the SSI program--and to allow states to supplement those benefits if they feel it necessary and if they have the resources to do so. This would provide a uniform federal contribution to benefits in all states, and would also ensure that a minimum standard of living was guaranteed to those considered needy no matter where they lived. At the same time, such a plan would provide states and localities with some flexibility in determining benefits. If states were allowed to cover additional beneficiaries at their option, this approach would also provide them with some control over the types of beneficiaries eligible for assistance. On the other hand, it could increase federal costs, and would still leave some differences in benefit levels among jurisdictions. In addition, federal funding of a minimum benefit, without a required state match, could reduce state incentives for administrative efficiency, since some states would no longer pay a share of the costs. Such incentives could be retained, however, either by requiring states to fund some portion of benefits at the minimum guarantee level or by penalizing states for high error rates as is now done in Medicaid.

Transfer Full Responsibility to the Federal Government. Under this option, benefit levels and eligibility criteria would be federally determined, and would presumably be uniform nationwide as they now are, for example, in the Food Stamp program. Centralized administration of income support programs might allow for better coordination among them, and between these programs and other federal activities that affect the distribution of resources among households in different income brackets. On the other hand, federal expenditures in this area would rise substantially if current benefit levels were, on average, maintained, and states were no longer required to contribute to their costs. In addition, this option would substantially lessen local control over benefit levels and program rules, and might result in programs that were less responsive to local needs and preferences.

Health Care Programs

Medicaid is the major non-social-insurance program providing health care benefits. Funding for this program is shared by the states and the federal government under a matching formula similar to the AFDC formula. The population served by the Medicaid program is very similar to the population receiving AFDC and SSI--in fact, receipt of AFDC or SSI benefits automatically confers eligibility for Medicaid, 6/ and beneficiaries under those two programs make up about three-fourths of Medicaid recipients. Thus, a change to a more uniform set of eligibility rules in those programs would also increase the uniformity of eligibility for Medicaid in different states.

As with the income support programs, the major tradeoffs involved in any change in the current system of determining Medicaid benefits would be between a desire to maintain or increase local control over the program and a desire for more uniform eligibility criteria and benefits across jurisdictions. Options for Medicaid, therefore, other than maintaining the current

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6. States have the option of limiting Medicaid coverage of SSI recipients by requiring them to meet any more restrictive eligibility criterion that was in effect before the implementation of SSI. States choosing the more restrictive criteria must allow applicants to deduct medical expenses from income for determining eligibility. Fifteen states currently employ more restrictive criteria.

system, would be to shift program responsibility to the states or to change program rules to achieve more uniformity among states, possibly increasing the federal role.

In addition to Medicaid, there are some small discretionary health programs that also provide benefits to individuals. The last part of this section examines some options for consolidating these programs.

Eliminate Federal Involvement in Medicaid. This plan would have many of the same advantages in Medicaid as in the income support programs. For example, local agencies may have greater knowledge of the needs and resources of local recipients and health care providers, and requiring more funding from state and local sources might increase the incentives of local administrators to control waste and fraud in the program. In addition, states may be more able to control health care costs than the federal government--for example, by restricting hospital expansion--and requiring states to pay more of Medicaid costs would increase their incentives to restrict cost increases.

On the other hand, increased local control in Medicaid, as in the income support programs, could lead to greater disparity in eligibility standards and benefits among jurisdictions, while increases in state and local responsibility for funding Medicaid could impose severe burdens on jurisdictions with low fiscal capacity and large eligible populations. Indeed, unless some federal revenue source was also turned over to the states, or state responsibilities were sharply reduced in other areas, assuming full responsibility for funding Medicaid would impose a great deal of strain on most state budgets.

Increase Uniformity of Medicaid Benefit Provisions. To some extent, as discussed above, greater uniformity of benefits in AFDC and SSI would automatically result in more uniform eligibility standards for Medicaid without any changes in the current program, since a large proportion of Medicaid recipients are categorically eligible for the program because they receive AFDC or SSI benefits. More uniform standards for AFDC and SSI, if they raised benefit levels in some states, could also increase Medicaid costs for those states, since more families would be eligible for cash benefits and hence for Medicaid. This could impose some hardships on poorer states. Further, some of those now eligible for benefits in high-benefit states would lose eligibility for Medicaid if they no longer received AFDC or SSI.

Another way to increase the uniformity of benefit provisions among jurisdictions, without necessarily increasing federal costs, would be to provide matching federal funds only for a consistent set of benefits and beneficiaries in all jurisdictions. Under current law, benefits that are subject to the federal match may be extended at the discretion of each state to low-income persons who meet only some of the categorical eligibility criteria, and states may choose to cover some medical services in addition to those required under federal program rules. The groups covered and the services provided vary considerably from state to state. If, under this option, states were still able to provide additional benefits at their own expense, they would maintain some control over the types and amounts of benefits and recipients. On the other hand, this plan would result in increased costs or a reduced range of beneficiaries and covered services in many states.

Increasing federal responsibility for Medicaid would be another way to increase the uniformity of benefits among states, and could also help to equalize the impact of rising health care costs on states with differing fiscal capacities. Health care costs are growing rapidly; even with no changes in the current method of funding benefits, growing Medicaid costs may strain some state budgets, especially in states with relatively low fiscal capacity and large eligible populations. On the other hand, federal assumption of all Medicaid funding woud be very costly, and may not be feasible in a period of rising deficits without reductions in other areas of the budget.

In the Administration's original federalism proposal, a swap was outlined under which the federal government would have assumed full responsibility for most Medicaid benefits in exchange for a state takeover of the AFDC and Food Stamp programs. This proposal met with opposition from the Congress and the states, however, both because it could have lowered income support levels in some areas, and because it could have proved costly to some states. More recently, it has been suggested that the federal government assume responsibility for the acute-care portion of Medicaid, leaving the long-term-care portion, which funds nursing home care, to the states. Such a plan would give the federal government responsibility for a large share of all acute-care payments, since acute care for non-poor elderly persons is already largely funded through the Medicare program, and this might allow greater federal control over the growth in hospital and physician costs. On the other hand, the costs of long-term care are also rising rapidly, and shifting all responsibility for these benefits to the states could result both in large financial burdens for some states and in large differences in eligibility for and costs of this type of care among states.

Consolidate Some Non-entitlement Health Programs. Many smaller health programs have already been combined into block grants to states and localities in the last two years, in an effort to increase local discretion with regard to the use of the funds and to decrease federal costs. In its 1984 budget, the Administration proposed that three more of these programs--the family planning program, migrant health services, and black lung clinics--be

24-083 O - 83 - 8

added to the Primary Care Block Grant created in 1981. Elimination of these categorical programs, it is argued, would further reduce administrative costs and complexity and would give local agencies--in many cases, the same agencies that already receive funds under the Primary Care Block Grant--more discretion in allocating their funds.

On the other hand, although some funding for these programs comes from states and from private sources, the federal government provides at least 80 percent of the funds in each of these three areas, and elimination of specific federal funds for these programs could threaten their existence. Folding them into the Primary Care Block Grant would allow jurisdictions to use the funds to provide services other than those now funded under these programs. Because these programs may have significant spillover benefits not reaped by a particular jurisdiction--improvements in the health status of migrant workers, or the prevention of unwanted births that may increase future public assistance and health care costs in other states, for example--or because the costs of providing such services would fall very unevenly across jurisdictions, there may be a substantial federal interest in guaranteeing the continuance of these benefits. In addition, federal funding in these areas tends to be more closely targeted on certain sub-populations than are funds from other sources, and reducing or eliminating federally provided funds would therefore probably reduce the benefits available for these groups.

Other Benefit Programs

Finally, in addition to the income support and health care programs, there are several smaller non-insurance-related benefit programs for individuals. These include the child nutrition programs and a few public assistance programs, such as low-income energy assistance, that do not provide direct income support. Of these, the major area in which some realignment has been discussed is the set of programs providing child nutrition benefits. Options in this area include program consolidation and the retargeting of federal funds.

Most child nutrition programs provide subsidized meals for children in schools, child care facilities, and other institutionalized settings. The federal government now provides roughly half of the funds in this area; the remainder comes from states and localities and from student fees. In its 1984 budget, the Administration proposed combining three of these programs--the School Breakfast program, the Summer Feeding program, and the Child Care Feeding program--into a block grant funded at $535 million, or about 35 percent less than 1983 funding levels for these programs. The argument for this consolidation is that it would reduce costly and complex federal regulations and would increase state flexibility in providing nutrition assistance in other-than-school settings.

On the other hand, while reducing federal regulation might lower the costs of providing meals somewhat, the savings would probably be considerably less than 35 percent. This proposal could therefore result in decreased funding for these programs, unless the states were willing to allocate some of their own funds to these purposes. Reductions in subsidies might cause some schools and other groups to drop out of the program--especially those with relatively large proportions of higher-income students, whose subsidies are already small. Removal of federal regulations might also reduce program targeting on children from low-income households.

A second option for these programs would be to reduce the subsidy to higher-income students--with, possibly, a reallocation of federal funds to other nutrition programs. (One candidate for additional funding under such a reallocation would be the Special Feeding Program for Women, Infants and Children (WIC), which, because it reduces birth defects and other health problems for low-income children, has proved very cost-effective.) Reduction in the subsidy for middle-income children, whose families presumably would be able to pay the full cost of their meals, could result in better program targeting. On the other hand, it might cause many schools and other institutions to drop out of the program, thus reducing the availability of school meals for poor children.

CHAPTER VII. FEDERAL AID FOR GENERAL PURPOSES

In the 1960s, expanded federal aid was provided primarily in the form of categorical grants for specific purposes. In 1973, however, the proportion of federal aid provided for general purposes increased substantially--from 1.5 to 16.7 percent--by implementation of the General Revenue Sharing (GRS) program. That share has been declining ever since, though, as categorical aid continued to increase and GRS did not. More recently, the Administration has proposed to reduce federal grants-in-aid, and to enhance the fiscal resources of nonfederal governments by relinquishing part or all of certain federal tax bases instead.

If the basis of federal concern is that provision of certain specific public services is inadequate, categorical aid would be preferable to general purpose aid. When, however, the concern is about the general ability of nonfederal governments to provide public services, rather than about the availability of particular services, general purpose aid would be better since using categorical aid to accomplish general resource realignment would impose needless and costly constraints on recipient governments.

This chapter examines the advantages and disadvantages of alternative forms of federal aid for general purposes. The next section explores the rationale for general purpose aid to nonfederal governments. Then, the GRS program is described, followed by a section that examines options for modifying it. The last section discusses relinquishing federal tax bases.

BASIS FOR FEDERAL INVOLVEMENT

The rationale for general purpose aid to nonfederal governments is concern that some may lack the resources to maintain adequate levels of public services. In changing the distribution of resources among governments, the Congress might seek to accomplish either or both of two objectives:

- A vertical realignment of resources, from the federal to nonfederal governments;
- A horizontal realignment of resources among state or local governments.

Vertical Realignment of Resources. Some, including the current Administration, have argued that the federal government has usurped the most productive tax bases, thereby weakening state and local governments in the federal system. Vertical realignment of resources--relinquishing federal revenues or revenue sources to state or local governments--is seen as a way of reversing the trend toward growing dominance of the federal government, thus returning decisionmaking authority about local public services to state and local governments.

In principle, vertical realignment could be accomplished either by sharing federally collected revenues with nonfederal governments as general purpose fiscal assistance, or by relinquishing certain federal tax bases so that nonfederal governments could pick them up if they chose. The latter would promote greater public accountability to state and local taxpayers, since nonfederal governments would have to raise taxes in order to increase spending.

In practice, however, sharing federal tax revenues is generally more effective for vertical realignment than relinquishing federal tax bases because taxpayers can more easily avoid a nonfederal tax by moving to another jurisdiction--a concern that tends to limit the extent to which one state will raise its tax rates relative to its neighbors, and that is still more limiting for local governments. The greater a government's jurisdictional tax reach, the less vulnerable it is to interjurisdictional tax competition and the higher it can set its top rate. The limiting effects of tax competition are likely to be greater when state or local taxes must be raised to support redistributive programs than when they would provide broad-based public services since the latter would generate benefits that might compensate residents for a higher tax burden.

Horizontal Realignment of Resources. Despite a reduction in per capita income differences across states in recent years, fiscal disparities among the states have increased. 1/ Fiscal disparities among localities are

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1. In 1981, the richest state (Alaska) had 4.5 times the tax capacity of the poorest state (Mississippi), while in 1975 Alaska's tax capacity was only twice that of Mississippi. Dispersion in tax capacity around the national average has increased by more than 75 percent since 1975. This is due in part to the dramatic increase in taxable wealth in a few energy-rich states. The measure of tax capacity used--here and elsewhere in the chapter--is that developed by the Advisory Commission on Intergovernmental Relations, based on the Representative Tax System (RTS). The RTS shows how much tax revenue state and local governments could raise if they taxed all their tax bases at the

even greater than disparities among states. Although broad measures of tax capacity are not available for localities, taxable property value can be used as a measure, since three-quarters of local government tax revenues are from the property tax. In 1976 (the latest year for which data are available), dispersion in tax capacity among local school districts within a state was, on average, more than four times the dispersion in tax capacity among states. 2/

The existence of disparities in fiscal capacity among state or local governments generates concern because such disparities result either in different levels of public services across jurisdictions, or in different tax burdens that must be borne to provide the same public services. The resulting differences in public service levels or tax burdens can cause people to migrate and businesses to locate in ways that do not reflect "real" economic differences in markets and costs. Such distorted choices reduce economic efficiency and can result in the self-perpetuating decline of depressed regions.

Reducing fiscal disparities among nonfederal governments requires a redistribution of resources from high-capacity areas to low-capacity areas. Only revenue sharing based on a redistributive formula can accomplish this, since relinquishing federal tax bases would merely augment fiscal resources at their point of origin.

THE CURRENT FEDERAL ROLE

In 1983, the federal government spent $6.3 billion for general purpose assistance to state or local governments, of which $4.6 billion provided General Revenue Sharing payments to local governments (see Table 11). The remainder provided payments in lieu of taxes to the District of Columbia and other federally affected localities, and payments to states and counties from federal land and forest management activities. This section discusses only the GRS program, since all other general purpose payments are forms of compensation rather than aid.

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1. (Continued)
   average tax rates for the nation as a whole. See Robert B. Lucke, "Rich States--Poor States: Inequalities in our Federal System," Intergovernmental Perspective, vol. 8, no. 2 (Spring 1982), Table 1.

2. See Eugene P. McLoone, Mary A. Golladay, and William Sonnenbert, Public School Finance: Profiles of the States, 1979 Edition (National Center for Education Statistics, 1981), Table 4.7. Property values were equalized to full market value in this study.